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DIRECTORATE OF
INTELLIGENCE

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5 July 1969

State Department review completed

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Approved For Release 2004/03/11 : CIA-RDP79T00975A014100020001-2

Approved For Release 2004/03/11 : CIA-RDP79T00975A014100020001-2

No. 0160/69
5 July 1969

Central Intelligence Bulletin

CONTENTS

Vietnam: Situation report. (Page 1)

Cambodia: The Communists are pressing Phnom Penh to renew its support for their effort in Vietnam. (Page 3)

Laos: The government has made some limited gains in its effort to recapture Muong Soui. (Page 5)

Presidential Trip: European leaders are speculating about the effect on US-USSR relations of the visit to Romania. (Page 6)

Argentina: The government is rounding up suspected agitators and extremists. (Page 7)

Brazil: The removal of an influential general will deepen the split in the military and the government. (Page 8)

Communist China - Pakistan: Peking is helping to build roads in northern Kashmir. (Page 11)

Western Europe: The European Communities' Commission has moved closer to a debate on financing the agricultural program. (Page 12)

Indonesia-Singapore: Improved relations (Page 13)

El Salvador - Honduras: Border incident (Page 13)

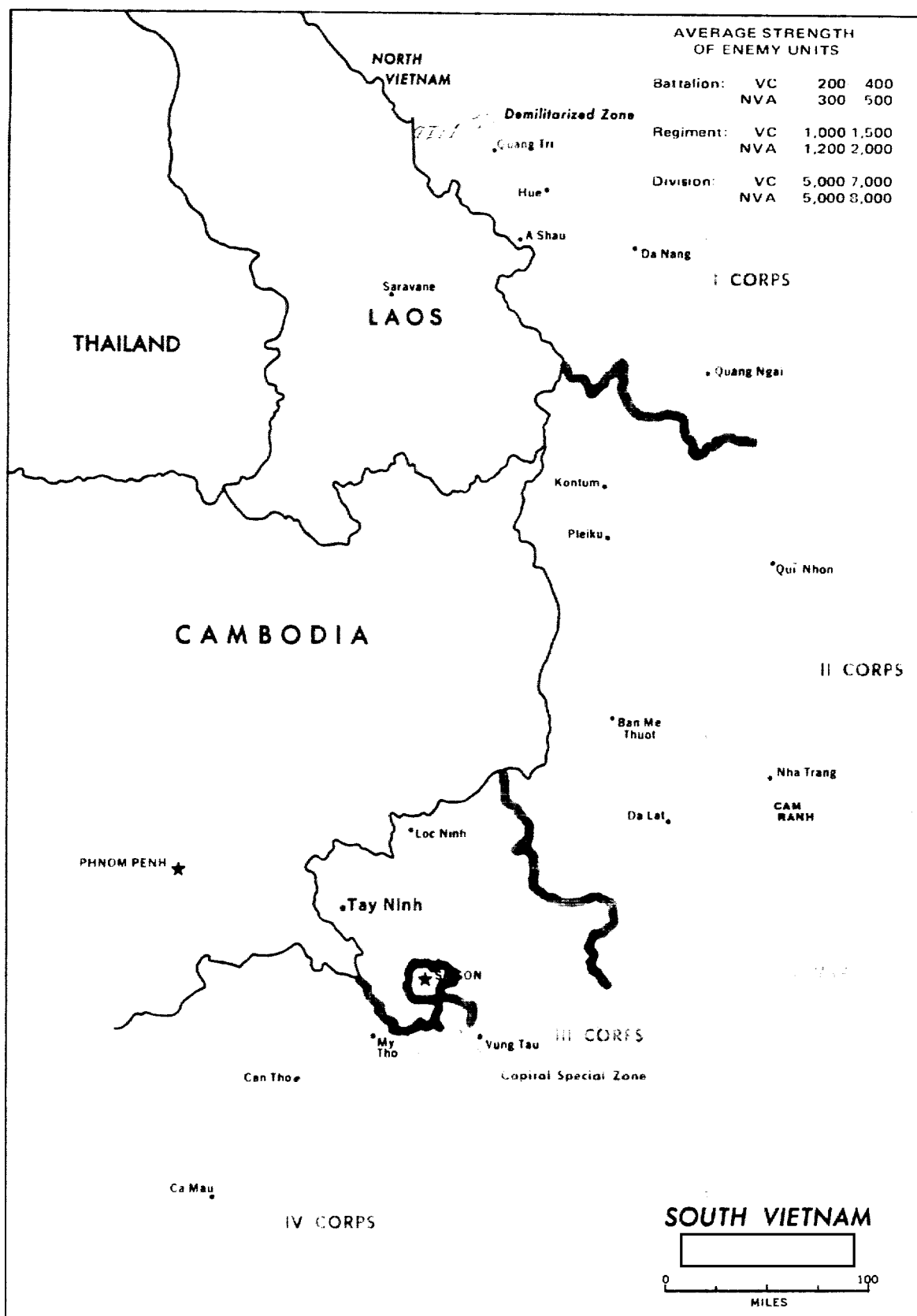
Belgium: Glass makers react (Page 15)

South Africa - Portugal - Mozambique: Electric power purchase (Page 15)

Western Europe: Multirole aircraft (Page 15)

SECRET

SECRET



95301 7-69 CIA

SECRET

25X1

SECRET

[Vietnam: [] re-
newed Communist attacks may occur in several parts of
the country within the next few days.

25X1

Some enemy units, however, are continuing to pull
back from towns and allied bases. This partial dis-
engagement, first noted early last week, suggests that
any Communist offensive in the immediate future will
be limited to a flare-up of shelling attacks and ground
probes similar to the so-called "highpoints" in May
and June.

[] another
Communist assault against Tay Ninh city is imminent.
[] the North Vietnamese 88th Regiment and
local Viet Cong units will try to penetrate Tay Ninh
city from the north. [] other unidenti-
fied forces will also attack the city. Enemy forces
came out of their base areas along the Cambodian bor-
der and entered Tay Ninh city previously on 6 and 19
June, touching off battles that caused dozens of ci-
vilian casualties and considerable destruction of
housing.

25X1

Ground fighting continues at a low level, although
there was a slight increase in action in the provinces
around Saigon on 3 July. The heaviest allied casual-
ties came in an enemy attack some 25 miles east of
the capital where nine US soldiers were killed and
19 wounded.

* * * *

Hanoi has passed up its first opportunity to make
good its announced intention to release three US pris-
oners. Citing poor landing conditions, the North
Vietnamese ordered the International Control Commis-
sion (ICC) flight on 4 July to return to Vientiane
while it was about an hour away from Hanoi. Accord-
ing to press reports, the flight has been rescheduled]

5 Jul 69

Central Intelligence Bulletin

1

SECRET

[for 8 July. The prisoners could fly out then, or on one of the subsequent weekly ICC runs.

Hanoi could well insist on turning the captives over to a peace group, as during their last two releases. This could delay their departure even longer. Last year, the North Vietnamese announced an impending prisoner release also on 3 July, but did not permit them to leave Hanoi until early August. [REDACTED]

[REDACTED] (Map)]

25X1

25X1

5 Jul 69

Central Intelligence Bulletin

2

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Cambodia: The Communists are pressing Phnom Penh to renew its support for their effort in Vietnam.

25X1 [redacted] the head of the Communists' Provisional Revolutionary Government, Huynh Tan Phat, has requested that Cambodia allow the Communists the continued and unhindered use of Cambodian base areas for the duration of the Vietnam war. Phat also asked Phnom Penh to authorize the movement of military hardware to Communist forces via Cambodia, and requested a formal trade agreement to "regularize" the shipment of nonmilitary goods. In return, Phat offered to "redraw" a small portion of the southern Cambodian - South Vietnamese border in Cambodia's favor.

The response of the Cambodian [redacted]

25X1 [redacted] is not known [redacted]
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[redacted]

25X1 Sihanouk [redacted]

[redacted] was expected to reiterate his basic demands for greatly reduced Communist activity in Cambodia and guarantees for a cessation of Communist support for local rebels. Sihanouk is well aware that his embargo on supplies is his principal leverage with the Communists. He will probably exploit this issue in an attempt to obtain more realistic guarantees from Phat on the border problems than the Communists have offered so far. [redacted]

5 Jul 69

Central Intelligence Bulletin

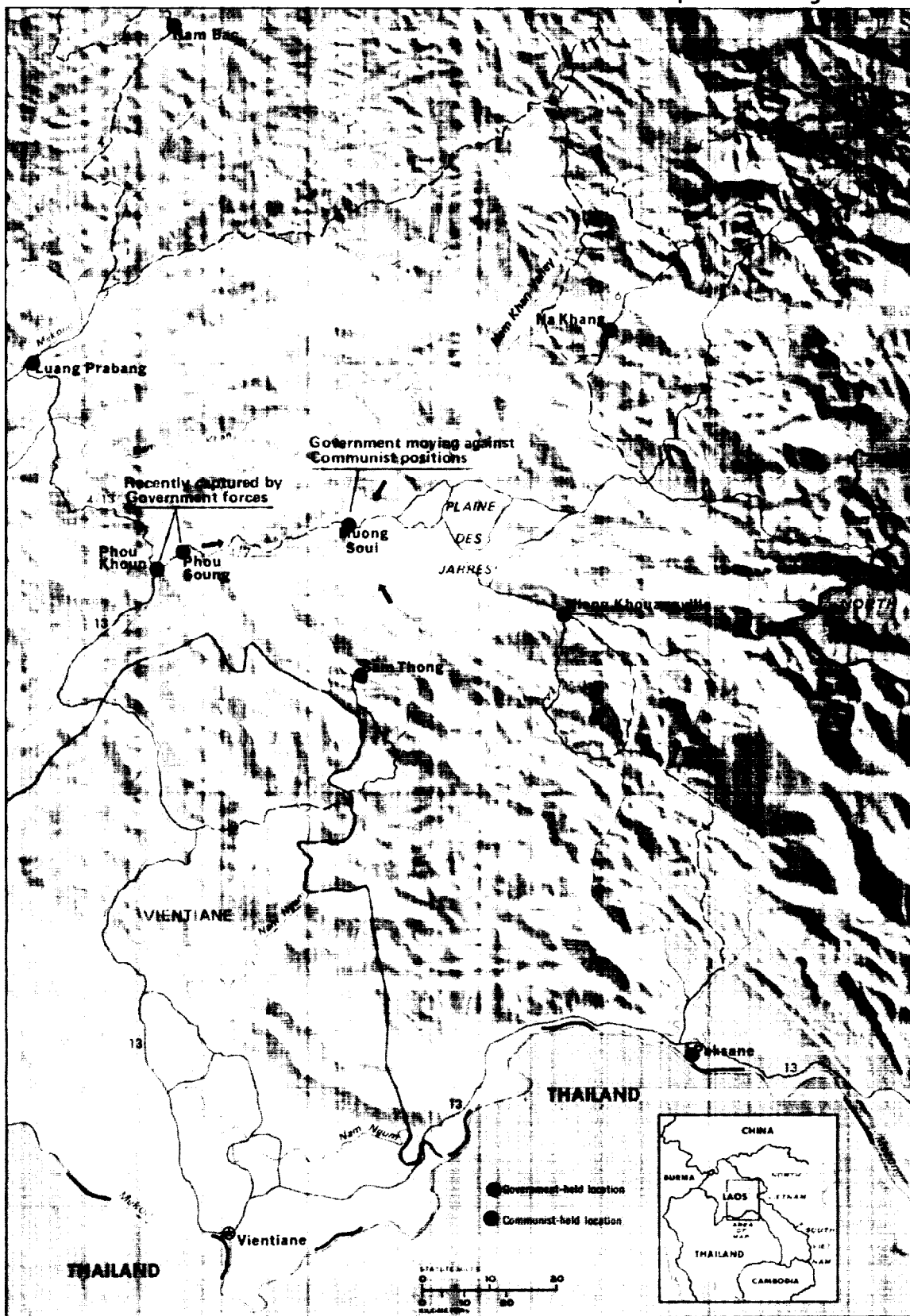
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LAOS: Government Makes Limited Gains in Effort to Recapture Muong Soui



95497 7-69 CIA

25X1

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Approved For Release 2004/03/11 : CIA-RDP79T00975A014100020001-2

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Laos: The government has made some limited gains in its effort to recapture Muong Soui.

Government troops encountered only light resistance in clearing enemy forces from the Route 7/13 road junction some 40 miles west of Muong Soui. The government has also reoccupied its defensive position astride Route 7 at Phou Soung.

Communist forces, in the face of a three-pronged government counterattack, appear to be regrouping in order to strengthen their defense at Muong Soui. There are reports that large numbers of North Vietnamese and Pathet Lao troops are dug in near Muong Soui, possibly including elements of the 174th and 148th North Vietnamese regiments.

The lack of stiff enemy resistance to the initial government moves suggests that the Communists may be more interested in consolidating their hold over Muong Soui than in attempting to expand their influence into northern Vientiane Province. [REDACTED]

[REDACTED] (Map)

25X1

5 Jul 69

Central Intelligence Bulletin

5

SECRET

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Presidential Trip: Leaders in both Eastern and Western Europe are speculating about the effect President Nixon's trip to Romania will have on US-Soviet relations.

Soviet officials have been reluctant to comment in the absence of an official line. One of them has suggested to a US Embassy official that the trip was reminiscent of the allegedly anti-Soviet "bridge-building" policies of the Johnson administration. So-called authoritative sources in Moscow have also been passing tips to Western newsmen that the trip may jeopardize Soviet-American and Soviet-Romanian relations. The restriction of Soviet comment to such "unofficial" channels indicates, however, that Moscow is still uncertain on how to handle the trip.

In Eastern Europe, the Romanians and Yugoslavs were pleased at the prospect and have said so in their official presses. The rest are awaiting an authoritative lead from Moscow. The Czechoslovaks and the Hungarians, however, are characteristically in front of the others, informing their populations through selective reprinting of generally favorable Western press commentary.

In Bonn as in many other Western European capitals there has been relatively little official comment. Government officials expressed some chagrin that the Kiesinger trip to Washington was pushed back again. Italian Premier Rumor thought the visit was positive, provided the Soviets did not regard it as provocative.



25X1

5 Jul 69

Central Intelligence Bulletin

6

SECRET

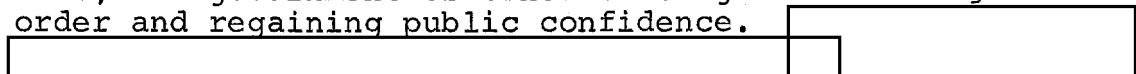
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Argentina: The government is rounding up large numbers of suspected agitators and extremists in order to end the recent wave of violence.

Acting under the nationwide state of siege imposed on 30 June, police have arrested more than 300 labor officials, students, lawyers, and opposition politicians. The interior minister told newsmen on 2 July that leftist labor leaders, who were the main target of the crackdown, would be released "when tensions subside."

Security officials still have little information about the persons responsible for the violence that has cost 22 lives since mid-May. The government frequently has charged that unidentified foreign influences were to blame for much of it. On 2 July, the foreign minister declared, without citing any supporting evidence, that a leftist movement under directions from Cuba was responsible.

Relations between labor and the Ongania government have deteriorated in the last two months because of the unrest. The administration is probably convinced that it is futile to negotiate with the unions for political support at this time. The death of labor chief Augusto Vandor, who was one of the key figures in the negotiations, will make it even more difficult to renew the dialogue. At the present time, the government is concentrating on restoring order and regaining public confidence.



25X1

5 Jul 69

Central Intelligence Bulletin

7

SECRET

SECRET

Brazil: The removal of an influential general will deepen the split in the military and the government and increase the hostility of the hardliners toward President Costa e Silva.

On 1 July, Costa e Silva removed a long-time critic, General Augusto Moniz de Aragao, from the post of director-general of army supply. Aragao recently made a speech to the generals in his command accusing the President of appointing unqualified relatives to official posts and of tolerating corruption among his family and close advisers.

Aragao later gave the war minister a letter formally setting forth the charges. After determining that other generals of the high command did not share Aragao's views, the minister presented the matter to Costa e Silva.

Military hardliners have become increasingly disturbed by the efforts of moderates who seem to have the President's support to return to a limited degree of political normalcy. The hardliners believe that the task of eliminating corruption in government is far from complete, and they think that a return to the "old politics" could seriously impair their program.



25X1

5 Jul 69

Central Intelligence Bulletin

8

SECRET

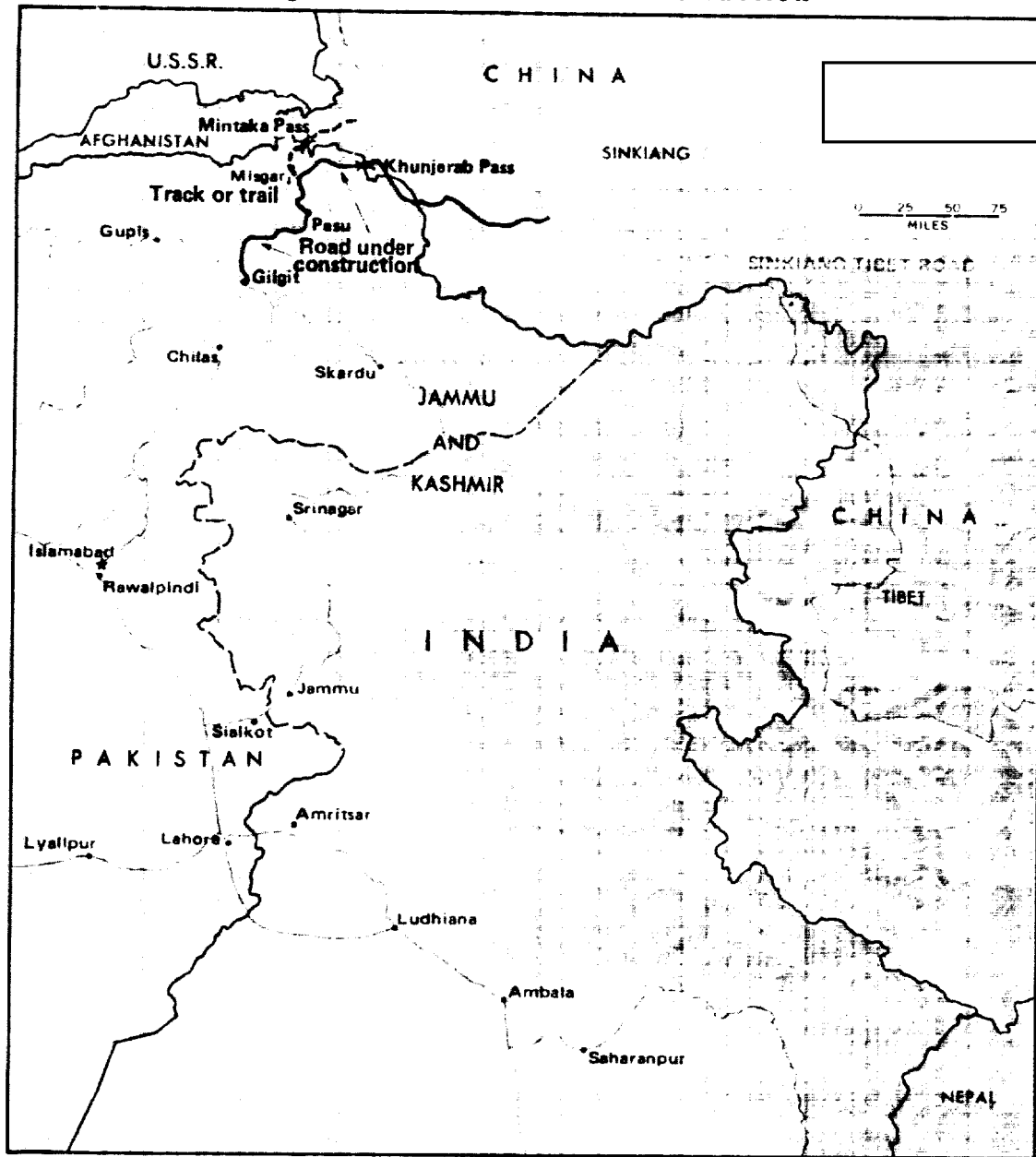
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Chicoms Assisting in Pakistani Road Construction



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SECRET

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Communist China - Pakistan: Peking is helping to build roads in northern Kashmir, but it will be several years before truck routes capable of moving significant amounts of freight are in operation.

During the past year, the Chinese have been aiding Pakistani engineers building a new road from Gilgit via the Khunjerab Pass to the Sinkiang-Tibet road inside China. There are reportedly 1,000 Chinese laborers now working on the stretch from Pasu to the Khunjerab Pass. This road, which will probably be gravelled, is intended for vehicles up to three tons. It is not expected to be completed until 1972 at the earliest.

There are other unconfirmed reports that the Chinese are also helping to improve the old "silk route" from Gilgit to Sinkiang via the Mintaka Pass. This road, which may be open this month, is only a pack route for mule caravans. Improvement of the Mintaka route, which also began last year, has been given heavy coverage in the Pakistani press, probably to draw attention away from work on the more strategic Khunjerab route. (Map)

25X1

5 Jul 69

Central Intelligence Bulletin

11

SECRET

SECRET

Western Europe: The European Communities Commission has moved a step closer to a critical debate later this year on the politically loaded issue of financing the agricultural program.

President Jean Rey told the European Parliament on 1 July that the commission intends to complete within the next two weeks its proposals for a new financing regulation, giving independent financial resources to the Communities. The EC hopes to reach agreement on this issue before the expiration of the transition period at the end of the year.

According to Rey, the commission will propose that receipts from agricultural levies and from the common external tariff be made the Communities' "own resources." Moreover, Rey said, the European Parliament should be given additional budgetary powers, although the commission would not take a position on the form of these powers until after further talks with the parliament itself.

Similar commission proposals in 1965 provoked a crisis and resulted in a seven-month boycott of the Communities' institutions by De Gaulle. It is not clear now whether the commission's new proposals will provoke similar difficulties.

A spokesman for the Gaullist group in the European Parliament has already insisted that the questions of agricultural financing and independent resources not be linked with the question of parliamentary powers. They may be eager, however, to see the agricultural issues settled before negotiations on British membership are opened.

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25X1

5 Jul 69

Central Intelligence Bulletin

12

SECRET

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Indonesia-Singapore: Djakarta's designation of Brigadier General Sunarso as its first ambassador to Singapore is another sign of the gradual improvement in relations between the two countries. Their relations had reached a low ebb last fall when Singapore executed two Indonesian Marines for terrorist acts committed during former president Sukarno's anti-Malaysian campaign. Sunarso is a former secretary general to the Association of Southeast Asian Nations and chairman of Indonesia's committee for domestic Chinese affairs. He is well regarded in Singapore both for his open-mindedness and pragmatism on ethnic affairs and his closeness to Suharto and other top military leaders. Singapore, for its part, has expressed interest in contributing to Indonesia's economic development plan and is considering construction of a large-scale housing development in Djakarta.

* * * *

*El Salvador - Honduras: Press reports have greatly exaggerated the border incident between El Salvador and Honduras on 3 July. A Honduran civilian airliner was fired on when it strayed into Salvadoran air space, but there apparently was little or no exchange of ground fire between the two countries. Although hotheads in the Salvadoran military are trying to get official support for a token military incursion into Honduras, indications are that cooler heads will prevail and the incident will be arbitrated by the other Central American countries or the Organization of American States

*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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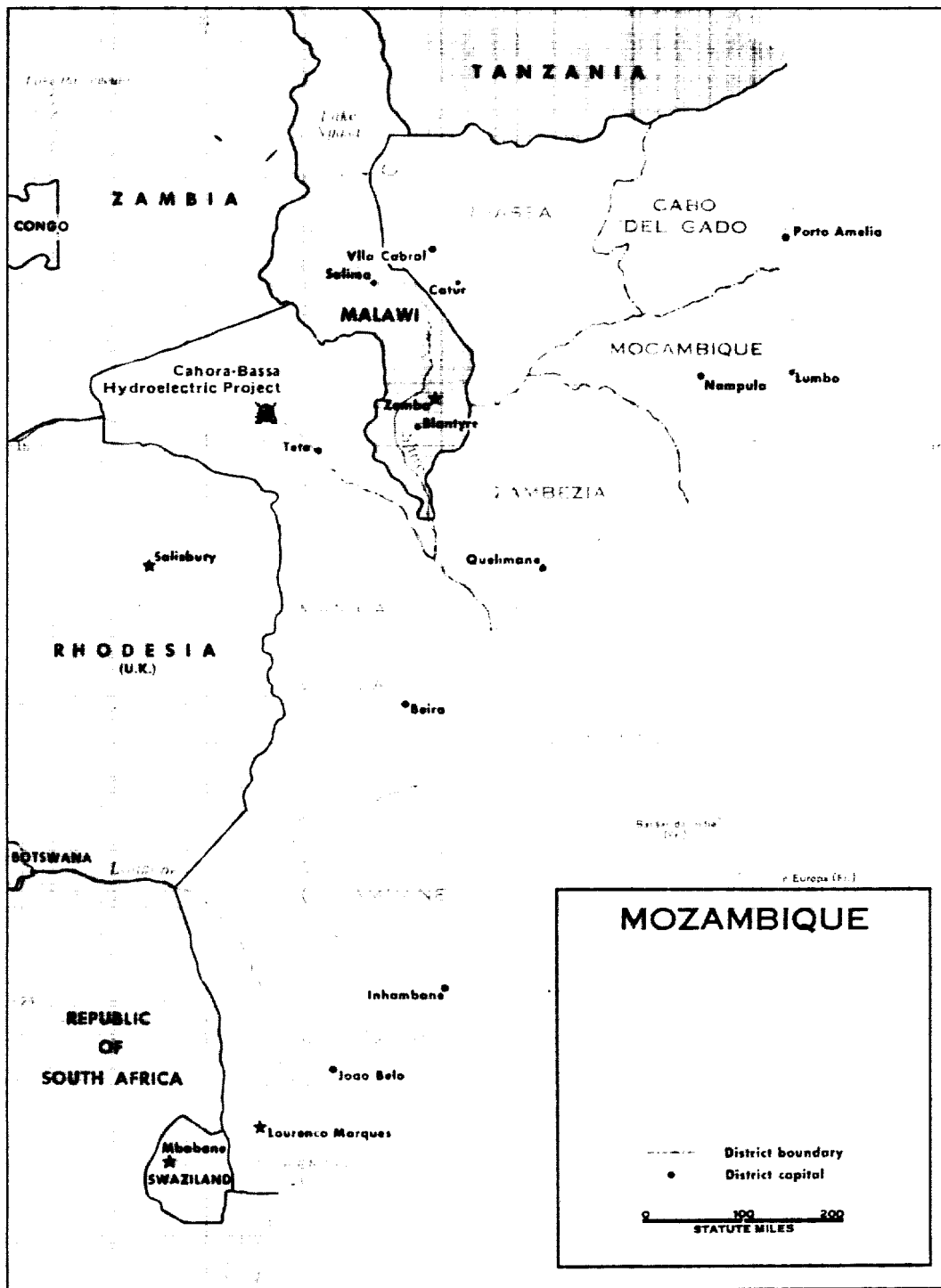
5 Jul 69

Central Intelligence Bulletin

13

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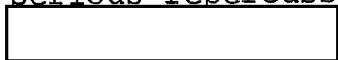


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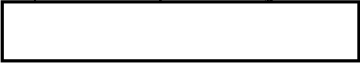
Belgium: Belgian glass manufacturers are reacting strongly to reports that the US glass industry is seeking to extend restrictions on imports of glass products. The Belgian glass industry is consulting with its counterparts in the European Community to concert action--and probably retaliatory measures--in the event the restrictions are approved. Brussels took the lead in the mid-sixties in organizing community-wide retaliation when the US imposed restrictions on imports of Belgian glass and carpets. The US Embassy in Brussels observes that in recent years glass has been a significant Belgian export to the US and that imposition of these restrictions would have serious repercussions on US relations with Belgium.



* * * *

South Africa - Portugal - Mozambique: South Africa and Portugal announced an agreement whereby South Africa will purchase the bulk of electric power produced by the planned Cahora-Bassa hydroelectric project in Mozambique. The agreement covers a 35-year period and presumably ensures construction of the much-talked-about Cahora-Bassa project, one of the largest undertakings in Africa to date. A final construction contract will probably be reached with a South African - led consortium in the next few weeks. The agreement between the two countries reflects their confidence in continued Portuguese control over Mozambique and will greatly increase Pretoria's interest in the territory.  (Map)

* * * *

Western Europe: The Dutch have announced that they will not purchase the multirole combat aircraft under development by a Western European consortium because of high costs and the plane's failure to meet Dutch operational requirements. The Dutch will for the time being remain in the consortium along with Britain, West Germany and Italy, but they have made their continued participation contingent on agreement by the four to develop a lighter plane in addition to the one planned. 

5 Jul 69

Central Intelligence Bulletin

15

SECRET

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